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C O N F I D E N T I A L LONDON 000797

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EO 12958 DECL: 03/17/2018

TAGS ECON, EFIN, UK

SUBJECT: BANKING CRISIS NOW ONE OF SOLVENCY NOT LIQUIDITY

SAYS BANK OF ENGLAND GOVERNOR

Classified By: AMB RTUTTLE, reasons 1.4 (b) and (d)

Summary

¶1. (C/NF) Since last summer, the nature of the crisis in financial markets has changed. The problem is now not liquidity in the system but rather Systemic Insolvency Is Now The Problem

¶2. (C/NF) King said that liquidity is necessary but not sufficient in the current market crisis because the global banking system is undercapitalized. Unblocking Illiquid Mortgage-Backed Securities

¶3. (C/NF) King said it is also imperative to find a way for banks to sell off unwanted illiquid securities, including mortgage backed securities. A Possible Approach To Recapitalization

¶4. (C/NF) The G-7 is almost dysfunctional on an economic level, said King. Key economies are not included, especially those that have large areas of comment.

¶5. (C) The King proposals were not casual ideas developed in the course of luncheon conversation. It was clear that his principal objective is

¶6. (U) Participants: USG: Ambassador Robert Tuttle; Deputy Secretary Kimmitt; Eric Meyer, Office Director for Europe; SIPDIS Robert Saliterman, Spokesman, International Affairs, U.S. Treasury; Warren Chané, ECONOFF. UK: Mervyn King, Governor, Bank of England; C

¶7. (U) Deputy Secretary Kimmitt has cleared this message.

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